



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
CLAY COUNTY  
SHERIFF'S SETTLEMENT - 1998 TAXES AND  
SHERIFF'S SETTLEMENT - 1998 UNMINED COAL TAXES**

**August 30, 1999**

**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **CLAY COUNTY EDWARD JORDAN, SHERIFF 1998 TAXES**

#### **Audit Opinion**

We have issued an unqualified opinion on the Clay County Sheriff's 1998 Tax Audit as of August 30, 1999. Justification for this conclusion is as follows:

- Record keeping was in substantial compliance with provisions with provisions of the Uniform System of Accounts as stipulated by the State Local Finance Officer and laws of Kentucky.
- Audit tests of disbursements indicate they are allowable, properly documentation, appropriately authorized, and accurately classified as a whole.
- Audit tests of receipts indicate they are accurate, properly classification, and complete taken as a whole.
- Comparisons of proof of cash with recorded receipts and disbursements reveal no material variances.
- As required by Government Auditing Standards, we reviewed the internal control structure and completed test of compliance with laws and regulations. The results of these procedures did not warrant qualifications of the financial statement.

#### **Other Areas**

- The state tax settlement was incorrect as a result of the state failing to charge the Sheriff with an additional intangible tax bill. We contacted the Revenue Cabinet and they corrected their settlement and forwarded a corrected copy to the Clay County Sheriff and us. As a result of the mistake, the Sheriff owes the Revenue Cabinet a refund of \$1,996.
- The Sheriff deducted 4% commissions on Library tax collections. The Sheriff is allowed 4 1/4% commissions on taxes collected for the Library District and is due a refund of \$198. We recommended in the exit conference that the Sheriff deduct 4 1/4% commissions on all Library tax collections in the future.
- The Sheriff had a surplus of \$1,108 in unrefundable duplicate payments and unexplained receipts. We believe that the surplus resulted from some taxpayers paying the face amount of their tax bills during the discount period; therefore, not taking advantage of the discount period.
- The Sheriff's deposits were not sufficiently insured or collateralized by \$181,945 during the 1998 tax year.
- There is a lack of an adequate segregation of duties within the Sheriff's office. Management has considered and rejected the additional costs when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate of duties.
- The Sheriff should settle all 1998 tax amounts as stated on the Sheriff's Settlement, which is included in the audit report. There were only small amounts due to the taxing districts. These amounts are immaterial and the Sheriff stated that he would settle these amounts as soon as possible.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
SHERIFF'S SETTLEMENT - 1998 TAXES .....	3
SHERIFF'S SETTLEMENT - 1998 UNMINED COAL TAXES.....	5
NOTES TO THE FINANCIAL STATEMENTS .....	6
COMMENT AND RECOMMENDATION .....	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	15





Edward B. Hatchett, Jr.  
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable James Garrison, Clay County Judge/Executive

Honorable Edward Jordan, Clay County Sheriff

Members of the Clay County Fiscal Court

Independent Auditor's Report

We have audited the Clay County Sheriff's Settlement - 1998 Taxes and Sheriff's Settlement - 1998 Unmined Coal Taxes as of August 30, 1999. These tax settlements are the responsibility of the Clay County Sheriff. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the Clay County Sheriff's taxes charged, credited, and paid as of August 30, 1999, in conformity with the basis of accounting described in the preceding paragraph.

Based on the results of our audit, we have presented a comment and recommendation, included herein, which discusses the following area of noncompliance:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
John P. McCarty, Secretary  
Finance and Administration Cabinet  
Mike Haydon, Secretary, Revenue Cabinet  
Honorable James Garrison, Clay County Judge/Executive  
Honorable Edward Jordan, Clay County Sheriff  
Members of the Clay County Fiscal Court

In accordance with Government Auditing Standards, we have also issued a report dated May 19, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
May 19, 2000



CLAY COUNTY  
EDWARD JORDAN, SHERIFF  
SHERIFF'S SETTLEMENT - 1998 TAXES

August 30, 1999

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 181,268	\$ 238,379	\$ 1,095,055	\$ 379,917
Tangible Personal Property	16,649	23,309	100,580	78,588
Intangible Personal Property				29,319
Fire Protection	3,778			
Franchise Corporation	33,537	46,108	202,598	
Additional Franchises	122	172	741	
Supplemental Taxes	813	1,067	4,902	3,751
1998 Undeveloped Oil and Gas	96	126	578	200
1998 Oil Property	227	299	1,371	476
1998 Gas Property	5,006	6,583	30,242	10,492
Penalties	3,597	4,669	21,408	7,999
Adjusted to Sheriff's Receipt	(124)	26	11	10
Gross Chargeable to Sheriff	<u>\$ 244,969</u>	<u>\$ 320,738</u>	<u>\$ 1,457,486</u>	<u>\$ 510,752</u>
<u>Credits</u>				
Discounts	\$ 2,497	\$ 3,249	\$ 14,806	\$ 6,293
Exonerations	3,296	4,321	19,849	6,886
Delinquents:				
Real Estate	10,341	13,453	61,798	21,440
Tangible Personal Property	229	320	1,381	1,410
Intangible Personal Property				108
Oil and Gas	253	332	1,528	530
Total Credits	<u>\$ 16,616</u>	<u>\$ 21,675</u>	<u>\$ 99,362</u>	<u>\$ 36,667</u>
Net Tax Yield	\$ 228,353	\$ 299,063	\$ 1,358,124	\$ 474,085
Less: Commissions *	<u>9,992</u>	<u>12,711</u>	<u>54,325</u>	<u>20,436</u>
Net Taxes Due	\$ 218,361	\$ 286,352	\$ 1,303,799	\$ 453,649
Taxes Paid	218,294	286,468	1,303,403	453,506
Refunds (Current and Prior Year)	<u>57</u>	<u>71</u>	<u>344</u>	<u>114</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 10</u>	<u>\$ (187)</u>	<u>\$ 52</u>	<u>\$ 29</u>

\* and \*\* See Page 4

CLAY COUNTY  
EDWARD JORDAN, SHERIFF  
SHERIFF'S SETTLEMENT - 1998 TAXES  
August 30, 1999  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	991,501
4% on	\$	1,358,124

\*\* Special Taxing Districts:

Library District	\$	(198)
Health District		6
Extension District		4
Soil District		<u>1</u>

Due Districts or (Refunds Due Sheriff)	\$	<u><u>(187)</u></u>
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The accompanying notes are an integral part of the financial statements.

CLAY COUNTY  
EDWARD JORDAN, SHERIFF  
SHERIFF'S SETTLEMENT - 1998 UNMINED COAL TAXES

August 30, 1999

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for Unmined Coal	\$ 2,851	\$ 3,750	\$ 17,222	\$ 5,975
Penalties	2	3	12	4
Gross Chargeable to Sheriff	<u>\$ 2,853</u>	<u>\$ 3,753</u>	<u>\$ 17,234</u>	<u>\$ 5,979</u>
<u>Credits</u>				
Discounts	\$ 56	\$ 74	\$ 339	\$ 118
Delinquents	<u>20</u>	<u>26</u>	<u>121</u>	<u>42</u>
Total Credits	<u>\$ 76</u>	<u>\$ 100</u>	<u>\$ 460</u>	<u>\$ 160</u>
Net Tax Yield	\$ 2,777	\$ 3,653	\$ 16,774	\$ 5,819
Less: Commissions *	<u>118</u>	<u>155</u>	<u>671</u>	<u>247</u>
Net Taxes Due	\$ 2,659	\$ 3,498	\$ 16,103	\$ 5,572
Taxes Paid	<u>2,659</u>	<u>3,498</u>	<u>16,103</u>	<u>5,572</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

\* Commissions:

4.25% on	\$	12,249
4% on	\$	16,774

CLAY COUNTY  
NOTES TO THE FINANCIAL STATEMENTS

August 30, 1999

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statements have been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of January 11, 1999, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$181,945 of public funds uninsured and unsecured.

CLAY COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 August 30, 1999  
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of January 11, 2000.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 1,040,000
Uncollateralized and uninsured	<u>181,945</u>
Total	<u><u>\$ 1,221,945</u></u>

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1998. Property taxes were billed to finance governmental services for the year ended June 30, 1999. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 30, 1998 through July 30, 1999.

1998 Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 1998. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 18, 1998 through April 26, 1999.

Note 4. Interest Income

The Clay County Sheriff earned \$4,014 as interest income on 1998 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 1998 taxes, the Sheriff had \$1,108 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

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COMMENT AND RECOMMENDATION





CLAY COUNTY  
EDWARD JORDAN, SHERIFF  
COMMENT AND RECOMMENDATION

August 30, 1999

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

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On January 11, 1999, \$181,945 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*Sheriff Jordan's Response:*

*The Sheriff stated that he will raise the pledge of securities before the 2000 tax collections begin.*

PRIOR YEAR:

- The Sheriff Should Require Depository Institutions To Pledge Additional Securities As Collateral To Protect Deposits.

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Honorable James Garrison, Clay County Judge/Executive  
Honorable Edward Jordan, Clay County Sheriff  
Members of the Clay County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Clay County Sheriff's Settlement - 1998 Taxes and Sheriff's Settlement - 1998 Unmined Coal Taxes as of August 30, 1999. We have issued our report thereon dated May 19, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clay County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Honorable James Garrison, Clay County Judge/Executive  
Honorable Edward Jordan, Clay County Sheriff  
Members of the Clay County Fiscal Court  
Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
May 19, 2000

